

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ingham County Road Commission	County Ingham
Audit Date December 31, 2004	Opinion Date April 28, 2005	Date Accountant Report Submitted to State: July 12, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

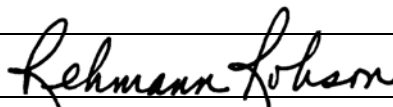
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------------------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



(a Component Unit of Ingham County)

MASON, MICHIGAN

FINANCIAL STATEMENTS

For The Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

INGHAM COUNTY ROAD COMMISSION
(a Component Unit of Ingham County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 28, 2005

Members of the Board of County
Road Commissioners
County of Ingham, Michigan
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **INGHAM COUNTY ROAD COMMISSION**, a component unit of Ingham County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Ingham County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Ingham County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2005, on our consideration of the **Ingham County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Ingham County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *Ingham County Road Commission*, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

Financial Highlights

Net assets may, over time, enable governmental agencies to determine their overall fiscal position:

- Assets exceeded liabilities by \$83,213,957 at the end of the fiscal year.
- Total net assets increased by \$3,950,302.
- Total bond debt decreased by \$305,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Road Commission's overall fiscal position.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission, which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Ingham County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Ingham County which reports the Road Commission as a component unit.

The government-wide financial statements can be found starting on page 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary nor fiduciary funds.

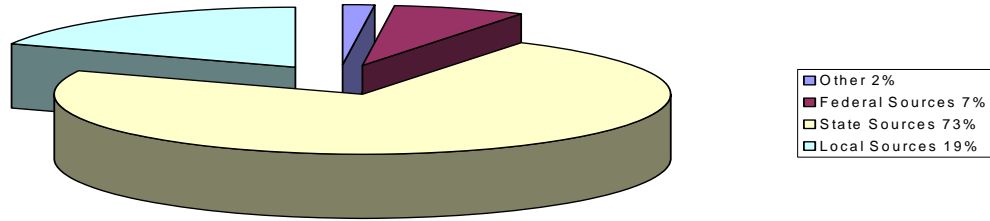
Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

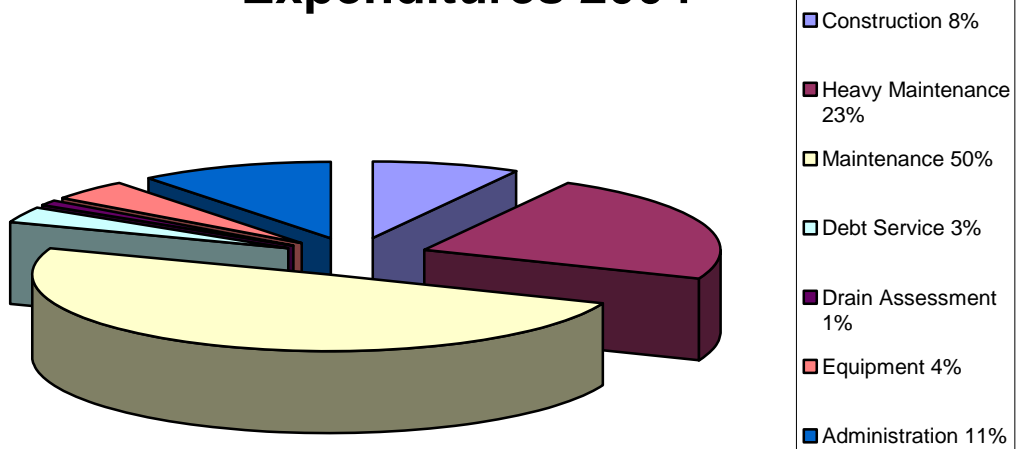
Because this is the third year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables a comparative analysis of government-wide data.

Condensed Statement of Net assets:	2003	2004
Current and other assets	\$ 4,644,853	\$ 5,039,979
Capital assets	<u>76,878,182</u>	<u>79,998,530</u>
Total assets	<u>81,523,035</u>	<u>85,038,509</u>
Long-term liabilities outstanding	1,619,442	1,260,951
Other liabilities	<u>639,938</u>	<u>563,601</u>
Total liabilities	<u>2,259,380</u>	<u>1,824,552</u>
Net assets:		
Invested in capital assets	75,987,941	79,542,590
Restricted	3,022,191	3,333,423
Unrestricted	<u>253,523</u>	<u>337,944</u>
Total net assets	<u>\$ 79,263,655</u>	<u>\$ 83,213,957</u>
Condensed Statement of Activities:		
Revenue		
Permits	\$ 275,450	\$ 268,893
Federal Sources	2,156,725	1,276,547
State Sources	13,481,777	13,930,256
Local Sources	2,108,506	3,532,710
Charges for Services	5,413	4,403
Interest and Rentals	12,500	27,636
Other	<u>41,312</u>	<u>39,566</u>
Total revenue	<u>18,081,683</u>	<u>19,080,011</u>
Expenses		
Public Works	14,214,731	15,084,991
Debt Service - Interest only	<u>55,431</u>	<u>74,099</u>
Total expenses	<u>14,270,162</u>	<u>15,159,090</u>
Other Financing Sources	<u>255,696</u>	<u>29,381</u>
Increase in Net Assets	<u>\$ 4,067,217</u>	<u>\$ 3,950,302</u>

Sources of Revenue 2004



Expenditures 2004



Capital Assets and Debt Administration	2003	2004
Ingham County Road Commission Capital Assets		
Land and improvements – not depreciated	<u>\$ 17,153,411</u>	<u>\$ 17,789,506</u>
Buildings	5,979,034	6,092,449
Road Equipment	8,397,850	8,692,038
Shop Equipment	196,338	233,608
Office Equipment	803,281	829,906
Engineering Equipment	127,918	123,243
Yard & Storage Equipment	231,607	231,607
Signals	51,877	51,877
Infrastructure – Roads	96,875,576	101,237,443
Infrastructure – Bridges	8,309,271	8,371,734
Infrastructure – Subdivisions	<u>2,408,314</u>	<u>-</u>
Sub-total	<u>120,972,752</u>	<u>128,272,219</u>
Accumulated Depreciation		
Buildings and improvements	2,297,885	2,455,168
Equipment	7,947,744	8,310,141
Signals	-	3,458
Infrastructure – Roads	49,466,627	53,592,517
Infrastructure – Bridges	<u>1,535,725</u>	<u>1,701,911</u>
Total Accumulated Depreciation	<u>61,247,981</u>	<u>66,063,195</u>
Total capital assets being depreciated – net	<u>59,724,771</u>	<u>62,209,024</u>
Governmental activities capital assets – net	<u>\$ 76,878,182</u>	<u>\$ 79,998,530</u>
Long-term Debt		
Bonds Payable	\$ 630,000	\$ 325,000
Lease Purchase Agreements	260,241	98,580
Settlements	-	28,333
Compensated absences	<u>729,201</u>	<u>355,124</u>
Total	<u>\$ 1,619,442</u>	<u>\$ 807,037</u>

Additional information on the Road Commission's long-term debt can be found in Note 4 on page 20 of this report.

Financial Analysis

As noted in the above tables, the Road Commission's financial position for the current fiscal year indicates positive balances for net assets. These have increased from the prior fiscal year.

The largest portion of the Road Commission's net assets reflects the investment in capital assets such as buildings, vehicles, equipment and infrastructure required to perform our business activities. These net assets are reduced by any related debt used to acquire the assets that is still outstanding. Because these assets are needed to conduct business activities and serve the citizens of Ingham County, they are not available for future spending. Thus, the resources needed to repay this debt must be secured from other sources.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2004 budget during the year to reflect the increase in heavy maintenance associated with primary and local roads and a slight increase in long term debt expense.

Revenues exceeded expenditures by \$251,689 in 2004.

For 2005, increases in the cost of gasoline and diesel fuel and the proposed budget balancing legislation at the state level may reduce the Michigan Transportation Fund (MTF) revenues by an estimated average of 6%. We will make the appropriate adjustments to the 2005 budget should this decrease happen.

Requests for Information

This financial report is designed to provide a general overview of Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, Ingham County Road Commission, 301 Bush St., Mason, MI 48854.

BASIC FINANCIAL STATEMENTS

INGHAM COUNTY ROAD COMMISSION

Statement of Net Assets and General Fund Balance Sheet

December 31, 2004

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 1,945,195	\$ -	\$ 1,945,195
Accounts receivable			
Motor vehicle highway funds	2,110,580	-	2,110,580
Due on county road agreements	22,791	-	22,791
Other	264,489	-	264,489
Inventories			
Road materials	449,646	-	449,646
Equipment material and parts	170,510	-	170,510
Prepaid expenditures/expenses	76,768	-	76,768
Capital assets			
Assets not being depreciated	-	17,789,506	17,789,506
Assets being depreciated (net)	-	62,209,024	62,209,024
Total assets	\$ 5,039,979	79,998,530	85,038,509
Liabilities			
Accounts payable	\$ 343,299	-	343,299
Accrued liabilities	91,193	6,974	98,167
Escrow deposits	122,135	-	122,135
Deferred revenue	183,660	(183,660)	-
Long-term liabilities			
Due within one year	-	807,037	807,037
Due after one year	-	453,914	453,914
Total liabilities	740,287	1,084,265	1,824,552
Fund Balance/Net Assets			
Fund balances:			
Reserved			
Primary road improvements	3,213,423	(3,213,423)	-
Local road improvements	100,000	(100,000)	-
MUSTFA	20,000	(20,000)	-
Unreserved			
Undesignated	966,269	(966,269)	-
Total fund balance	4,299,692	(4,299,692)	-
Total liabilities and fund balance	\$ 5,039,979		
Net Assets:			
Investment in capital assets, net of related debt		79,542,590	79,542,590
Restricted for primary and local roads		3,333,423	3,333,423
Unrestricted		337,944	337,944
Total net assets		\$ 83,213,957	\$ 83,213,957

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

December 31, 2004

Fund balances - General Fund	\$ 4,299,692
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	79,998,530
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add - deferred long-term receivable	183,660
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Deduct - bonds payable	(325,000)
Deduct - land contract and installment lease purchase agreements payable	(130,940)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(6,974)
Deduct - judgements payable	(56,667)
Deduct - compensated absences payable	(748,344)
Net assets of governmental activities	<u><u>\$ 83,213,957</u></u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2004

	General Fund	Adjustments	Statement of Activities
Revenue			
Permits	\$ 268,893	\$ -	\$ 268,893
Intergovernmental:			
Federal sources	1,276,547	-	1,276,547
State sources	13,930,256	-	13,930,256
Local sources	940,736	2,591,974	3,532,710
Charges for services	4,403	-	4,403
Interest and rentals	27,636	-	27,636
Other	39,566	-	39,566
Total revenue	<u>16,488,037</u>	<u>2,591,974</u>	<u>19,080,011</u>
Expenditures/Expenses			
Current:			
Public works	15,721,530	(636,539)	15,084,991
Debt service:			
Principal	434,301	(434,301)	-
Interest	80,517	(6,418)	74,099
Total expenditures/expenses	<u>16,236,348</u>	<u>(1,077,258)</u>	<u>15,159,090</u>
Revenue over expenditures	251,689	3,669,232	
Other financing sources			
Proceeds/gain from sales of capital assets	29,696	(315)	29,381
Change in fund balance	281,385	(281,385)	
Change in net assets		3,950,302	3,950,302
Fund Balance/Net Assets, beginning of year, as restated	<u>4,018,307</u>	<u>75,245,348</u>	<u>79,263,655</u>
Fund Balance/Net Assets, end of year	<u><u>\$ 4,299,692</u></u>	<u><u>\$ 78,914,265</u></u>	<u><u>\$ 83,213,957</u></u>

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Year Ended December 31, 2004

Net change in fund balances - General Fund	\$ 281,385
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	820,404
Add - infrastructure additions	5,060,425
Add - subdivision infrastructure additions contributed by developers	2,408,314
Add - adjustments to record net gain on sale of capital assets	(315)
Deduct - depreciation expense	(5,168,480)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following year.

Add - increase in deferred long-term receivable	183,660
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Bond and capital lease proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds or obtaining financing through capital leases increases long-term liabilities in the statement of net assets. Repayment of bond principal or other long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds	305,000
Add - principal payments on lease purchase installment agreements	129,301

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	6,418
Deduct - increase in judgements payable	(56,667)
Deduct - increase in the accrual for compensated absences	(19,143)

Change in net assets of governmental activities	<u>\$ 3,950,302</u>
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The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Permits	\$ 250,000	\$ 290,000	\$ 268,893	\$ (21,107)
Intergovernmental:				
Federal sources	1,144,000	1,059,000	1,276,547	217,547
State sources	12,927,900	13,640,000	13,930,256	290,256
Local sources	770,000	1,100,000	940,736	(159,264)
Charges for services	4,000	4,000	4,403	403
Interest and rentals	10,000	17,000	27,636	10,636
Other	-	-	39,566	39,566
Total revenue	15,105,900	16,110,000	16,488,037	378,037
Expenditures				
Current:				
Construction	-	-	1,309,562	(1,309,562)
Primary heavy maintenance	2,800,000	3,790,000	2,589,007	1,200,993
Local heavy maintenance	2,548,000	1,385,000	1,161,856	223,144
Primary maintenance	1,210,000	4,186,000	4,146,249	39,751
Local maintenance	2,413,000	4,073,000	3,960,390	112,610
Equipment - net	-	940,000	722,250	217,750
Administrative - net	1,180,800	1,480,800	1,715,518	(234,718)
Drain assessment	165,000	201,000	200,838	162
Distributive expense and contingency	4,128,500	-	-	-
Capital outlay - net	(204,800)	(64,800)	(84,140)	19,340
Debt service	463,000	483,000	514,818	(31,818)
Total expenditures	14,703,500	16,474,000	16,236,348	237,652
Revenue over (under) expenditures	402,400	(364,000)	251,689	615,689
Other financing sources				
Proceeds from sales of capital assets	27,500	25,000	29,696	4,696
Change in fund balance	429,900	(339,000)	281,385	620,385
Fund Balance, beginning of year	4,018,307	4,018,307	4,018,307	-
Fund Balance, end of year	\$ 4,448,207	\$ 3,679,307	\$ 4,299,692	\$ 620,385

The accompanying notes are an integral part of these financial statements.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ingham County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Ingham County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Ingham, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having financial accountability. Based on the above criteria, these financial statements present the Ingham County Road Commission, a discretely presented component unit of Ingham County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Managing Director, acting as the chief administrative officer, submits a proposed budget for the upcoming year to the Road Commission. The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a functional basis. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary to reflect the effects of the distribution of the distributive account and other amendments to the budget as needed. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, and include the following:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Construction	\$ -	\$ 1,309,562	\$1,309,562
Administrative – net	1,480,800	1,715,518	234,718
Debt service	483,000	514,818	31,818

Investments

Investments, which are included with cash and cash equivalents on the financial statements, include commercial paper which is carried at fair value.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

Certain assets of the Road Commission are reserved for primary and local road construction and maintenance as required under state revenue sharing requirements. At December 31, \$3,213,423 is reserved for primary roads, \$100,000 is reserved for local roads, and \$20,000 is reserved for MUSTFA.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Infrastructure assets are being capitalized and depreciated. Infrastructure has been recorded retrospectively beginning in 1980. Capital assets are defined by the Road Commission as assets with an estimated life in excess of two years, and an individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS

Deposits

At December 31, 2004, the amount of the Road Commission's cash and cash equivalents were as follows:

Deposits	\$ 443,445
Investments	1,501,250
Cash on hand	<u>500</u>
	<u>\$ 1,945,195</u>

Deposits

At year end, the carrying amount of the Road Commission's deposits was \$443,445 and the bank balance was \$921,340. Deposits of the Road Commission are held by Ingham County and may be partially covered by federal depository insurance. However, the amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

The Road Commission's investments are categorized as either: (1) insured or registered, or securities held by the County or its agent in the County's name; (2) uninsured or unregistered, with securities held by the counterparty's trust department or agent in the County's name; or (3) uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent but not in the County's name.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2004, the Road Commission through the County Treasurer has investment balances as follows:

	Category			Fair Value
	1	2	3	
Investments:				
Commercial paper	<u>\$ 389,250</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 389,250
Unclassified as to risk:				
Government investment pools				<u>1,112,000</u>
Total Investments				<u>\$ 1,501,250</u>

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	\$ 2,030,757	\$ -	\$ -	\$ 2,030,757
Land improvements	15,122,654	636,095	-	15,758,749
	<u>17,153,411</u>	<u>636,095</u>	<u>-</u>	<u>17,789,506</u>
Capital assets being depreciated:				
Buildings and improvements	5,979,034	113,415	-	6,092,449
Road equipment	8,397,850	629,734	335,546	8,692,038
Shop equipment	196,338	50,630	13,360	233,608
Office equipment	803,281	26,625	-	829,906
Engineers' equipment	127,918	-	4,675	123,243
Yard and storage	231,607	-	-	231,607
Signals	51,877	-	-	51,877
Infrastructure - Roads	96,875,576	4,361,867	-	101,237,443
Infrastructure - Bridges	8,309,271	62,463	-	8,371,734
Infrastructure - Subdivisions	-	2,408,314	-	2,408,314
	<u>120,972,752</u>	<u>7,653,048</u>	<u>353,581</u>	<u>128,272,219</u>
Subtotal				
	<u>120,972,752</u>	<u>7,653,048</u>	<u>353,581</u>	<u>128,272,219</u>
Accumulated depreciation				
Buildings and improvements	2,297,885	157,283	-	2,455,168
Road equipment	6,966,144	595,217	335,231	7,226,130
Shop equipment	174,340	7,863	13,360	168,843
Office equipment	536,703	96,770	-	633,473
Engineers' equipment	93,173	9,295	4,675	97,793
Yard and storage	177,384	6,518	-	183,902
Signals	-	3,458	-	3,458
Infrastructure - Roads	49,466,627	4,125,890	-	53,592,517
Infrastructure - Bridges	1,535,725	166,186	-	1,701,911
	<u>61,247,981</u>	<u>5,168,480</u>	<u>353,266</u>	<u>66,063,195</u>
Total accumulated depreciation				
	<u>61,247,981</u>	<u>5,168,480</u>	<u>353,266</u>	<u>66,063,195</u>
Total capital assets being depreciated - net	<u>59,724,771</u>	<u>2,484,568</u>	<u>315</u>	<u>62,209,024</u>
Governmental activities capital assets - net	<u>\$ 76,878,182</u>	<u>\$ 3,120,663</u>	<u>\$ 315</u>	<u>\$ 79,998,530</u>

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2004	Increases	(Decreases)	Balance December 31, 2004	Due Within One Year
Bonds payable	\$ 630,000	\$ -	\$ (305,000)	\$ 325,000	\$ 325,000
Land contract and installment lease purchase agreements	260,241	-	(129,301)	130,940	98,580
Total installment debt	890,241	-	(434,301)	455,940	423,580
Settlements	-	85,000	(28,333)	56,667	28,333
Compensated absences	729,201	19,143	-	748,344	355,124
Totals	\$ 1,619,442	\$ 104,143	\$ (462,634)	\$ 1,260,951	\$ 807,037

Bonds payable include Michigan Transportation Fund Bonds, Series 1995, dated June 22, 1995 in the amount of \$2,500,000, with interest ranging from 4.95 to 5.15% with a balance due of \$325,000 at December 31, 2004.

Installment lease purchase agreements consists of an obligation for a grader. Quarterly payments of \$16,393 include interest of 3.5% with the last payment due May 15, 2006. At December 31, 2004, the balance due is \$95,408.

The Road Commission has entered into a land contract obligation for the purchase of real property, which provides for annual installments of \$30,050 to \$78,128, including interest at 5.5%, with the last payment due June 15, 2005. At December 31, 2004, the balance due is \$35,532.

Annual debt service requirements to maturity for the lease purchase agreements and bonds are as follows:

Year Ending December 31,	Governmental Activities			
	Installment Lease/ Land Contract		Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 98,580	\$ 3,052	\$ 325,000	\$ 16,738
2006	32,360	427	-	-
Total	\$ 130,940	\$ 3,479	\$ 325,000	\$ 16,738

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

5. OPERATING LEASES

The Road Commission leases a loader and a grader under noncancellable operating leases. Total costs for such leases were \$38,816 for the year ended December 31, 2004. Future minimum lease payments for these leases are as follows:

**Year Ending
December 31,**

2005	\$ 38,543
2006	<u>25,055</u>
	<u>\$ 63,598</u>

6. RETIREMENT PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 9.8% to 19.5% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$751,334 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the entry age normal cost method basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 539,485	100%	\$ -
12/31/03	651,929	100	-
12/31/04	751,334	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$18,621,811	\$21,763,679	\$3,141,868	86%	4,439,099	71%
12/31/02	18,754,136	22,849,281	4,095,145	82	4,501,782	91
12/31/03	19,792,516	24,157,395	4,364,879	82	4,659,401	94

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool "Pool" established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Ingham County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

INGHAM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or "Incurred But Not Reported" claims associated with the self-insurance arrangements is not considered to be material at December 31, 2004.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

9. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$1,276,547 of federal/state dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

9. RESTATEMENTS

Fund balance/net assets as of January 1, 2004, were restated as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund balance/net assets, January 1, 2004, as previously reported	\$ 4,039,445	\$ 79,372,113
Increase to eliminate current portion of compensated absences improperly recognized	35,500	-
Decrease to properly recognize accrued liabilities	<u>(56,638)</u>	<u>(108,458)</u>
Fund balance/net assets, January 1, 2004, as restated	<u>\$ 4,018,307</u>	<u>\$ 79,263,655</u>

* * * * *

GENERAL FUND SCHEDULES

INGHAM COUNTY ROAD COMMISSION

Detail Schedule of Revenue and Other Financing Sources - Budget and Actual General Fund

For the Year Ended December 31, 2004
(With Actual Amounts for the Year Ended December 31, 2003)

	2004			2003
	Final Budget	Actual	Variance	Actual
Revenue				
Permits	\$ 290,000	\$ 268,893	\$ (21,107)	\$ 275,450
Federal sources:				
Federal aid - other	660,000	859,674	199,674	1,585,255
D Funds	189,000	206,388	17,388	441,860
Economic Development Funds	210,000	210,485	485	-
Bridge	-	-	-	129,610
Total federal sources	1,059,000	1,276,547	217,547	2,156,725
State sources:				
Motor Vehicle Highway Funds - Act 51:				
Engineering	10,000	10,000	-	10,000
Primary roads	8,975,000	9,265,233	290,233	8,924,379
Local roads	2,592,000	2,624,744	32,744	2,510,947
Primary urban roads	1,515,000	1,499,195	(15,805)	1,465,474
Local urban roads	548,000	531,084	(16,916)	538,097
State critical bridge	-	-	-	32,880
Total state sources	13,640,000	13,930,256	290,256	13,481,777
Local sources:				
Township contributions	990,000	817,285	(172,715)	1,938,862
Other contributions	110,000	123,451	13,451	169,644
Total local sources	1,100,000	940,736	(159,264)	2,108,506
Charges for services:				
Salvage sales	4,000	4,403	403	5,413
Interest	17,000	27,636	10,636	12,500
Other revenue	-	39,566	39,566	41,312
Total revenue	16,110,000	16,488,037	378,037	18,081,683
Other financing sources				
Proceeds from sales of equipment	25,000	29,696	4,696	183,611
Capital lease proceeds	-	-	-	187,575
Total other financing sources	25,000	29,696	4,696	371,186
Total revenue and other financing sources	\$ 16,135,000	\$ 16,517,733	\$ 382,733	\$ 18,452,869

INGHAM COUNTY ROAD COMMISSION

Detail Schedule of Expenditures - Budget and Actual General Fund

For the Year Ended December 31, 2004
(With Actual Amounts for the Year Ended December 31, 2003)

	2004			2003
	Final Budget	Actual	Variance	Actual
Construction:				
Primary roads and structures	\$ -	\$ 1,309,562	\$ 1,309,562	\$ 971,082
Heavy maintenance:				
Primary roads and structures	3,790,000	2,589,007	(1,200,993)	3,709,499
Local roads and structures	1,385,000	1,161,856	(223,144)	2,299,845
Total heavy maintenance	5,175,000	3,750,863	(1,424,137)	6,009,344
Maintenance:				
Primary roads and structures, winter and traffic control	4,186,000	4,146,249	(39,751)	3,656,243
Local roads and structures, winter and traffic control	4,073,000	3,960,390	(112,610)	3,918,557
Total maintenance	8,259,000	8,106,639	(152,361)	7,574,800
Equipment:				
Direct	1,600,000	1,438,340	(161,660)	1,442,700
Indirect	1,400,000	1,320,446	(79,554)	1,274,558
Operating	200,000	222,200	22,200	184,646
Less: equipment rental	(2,260,000)	(2,258,736)	1,264	(2,141,727)
Total equipment	940,000	722,250	(217,750)	760,177
Administrative:				
Administration	1,486,800	1,720,501	233,701	1,619,906
Less:				
Purchase discounts	(1,500)	(1,821)	(321)	(1,011)
Other	(4,500)	(3,162)	1,338	(5,013)
Total administrative	1,480,800	1,715,518	234,718	1,613,882
Drain assessment	201,000	200,838	(162)	141,786
Capital outlay:				
Land improvements, building and equipment	795,200	788,385	(6,815)	773,358
Less: depreciation	(860,000)	(872,525)	(12,525)	(909,199)
Total capital outlay	(64,800)	(84,140)	(19,340)	(135,841)
Debt service:				
Principal retirement	433,000	434,301	1,301	559,493
Interest and fiscal charges	50,000	80,517	30,517	61,411
Total debt service	483,000	514,818	31,818	620,904
Total expenditures	\$ 16,474,000	\$ 16,236,348	\$ (237,652)	\$ 17,556,134

INGHAM COUNTY ROAD COMMISSION

Schedule of Revenue, Expenditures and Changes in Fund Balances

For the Year Ended December 31, 2004

	Designated		Undesignated	
	Primary	Local	County	
	Road Fund	Road Fund	Road Fund	Total
Revenue				
Permits	\$ 138,173	\$ 130,720	\$ -	\$ 268,893
Intergovernmental:				
Federal sources	1,066,062	210,485	-	1,276,547
State sources	10,772,128	3,158,128	-	13,930,256
Local sources	-	940,736	-	940,736
Charges for services	3,302	-	1,101	4,403
Interest and rentals	18,303	677	8,656	27,636
Other	-	39,566	-	39,566
Total revenue	11,997,968	4,480,312	9,757	16,488,037
Expenditures				
Construction	1,309,562	-	-	1,309,562
Heavy maintenance	2,589,007	1,161,856	-	3,750,863
Maintenance	4,146,249	3,960,390	-	8,106,639
Equipment - net	309,701	352,964	59,585	722,250
Administrative - net	1,048,148	667,370	-	1,715,518
Drain assessment	200,838	-	-	200,838
Capital outlay - net	(63,105)	-	(21,035)	(84,140)
Principal retirement	412,951	-	21,350	434,301
Interest and fiscal charges	77,678	-	2,839	80,517
Total expenditures	10,031,029	6,142,580	62,739	16,236,348
Revenue over (under) expenditures	1,966,939	(1,662,268)	(52,982)	251,689
Other financing sources				
Proceeds from sales of capital assets	22,272	-	7,424	29,696
Transfers in	-	1,658,387	-	1,658,387
Transfers (out)	(1,658,387)	-	-	(1,658,387)
Total other financing sources (uses)	(1,636,115)	1,658,387	7,424	29,696
Change in fund balance	330,824	(3,881)	(45,558)	281,385
Fund Balance, beginning of year	2,882,599	103,881	1,031,827	4,018,307
Fund Balance, end of year	\$ 3,213,423	\$ 100,000	\$ 986,269	\$ 4,299,692
Fund Balance, end of year				
Reserved	\$ 3,213,423	\$ 100,000	\$ 20,000	\$ 3,333,423
Unreserved, undesignated	-	-	966,269	966,269
	\$ 3,213,423	\$ 100,000	\$ 986,269	\$ 4,299,692

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

April 28, 2005

Members of the Board of County
Road Commissioners
County of Ingham, Michigan
Mason, Michigan

We have audited the financial statements of the governmental activities and the major fund of Ingham County Road Commission, a component unit of Ingham County, which collectively comprise the Road Commission's basic financial statements, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ingham County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ingham County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Ingham County Road Commission in a separate letter dated April 28, 2005.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, the County's Board of Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



April 28, 2005

To the Board of County Road Commissioners of
Ingham County, Michigan
Mason, Michigan

We have audited the financial statements of the Ingham County Road Commission for the year ended December 31, 2004, and have issued our report thereon dated April 28, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Ingham County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Ingham County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ingham County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ingham County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ingham County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ingham County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Ingham County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ingham County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Road Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L' and 'J'.